Saskatchewan
Finance

Annual Report 2001-2002

Saskatchewan Pension Annuity Fund

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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2002.

I have the honour to be, Madam,

Your obedient servant,

Eric Cline
Minister in Charge
Saskatchewan Pension Annuity Fund

Saskatchewan
Public Employees
Benefits Agency

The Honourable Eric Cline
Minister in Charge
Public Employees Pension Plan
Regina, Saskatchewan

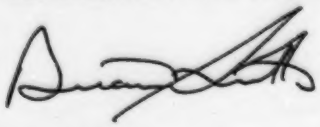
Sir:

Letter of Transmittal

On behalf of the Pension Board of the Public Employees Pension Plan, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2002.

Respectfully submitted,

Pension Board
Saskatchewan Pension Annuity Fund



Brian Smith
Chairman

INTRODUCTION

The Public Employees (Government Contributory) Annuity Fund was established under provisions of an amendment to the *Superannuation (Supplementary Provisions) Act*, assented to on June 19, 1985. Effective July 1, 1997 the plan is continued as the Saskatchewan Pension Annuity Fund (SPAF) under subsection 5(1) of the *Saskatchewan Pension Annuity Fund Act*.

All or a portion of a designated plan's account balance can be used to purchase a life annuity from SPAF.

Members with a spouse must purchase a joint life annuity with their spouse. Upon the death of the member and his/her spouse, if the total amount paid in annuity payments is less than the amount used to purchase the annuity, the difference is paid to the estate of the last survivor.

A member's spouse may waive the right to a joint annuity thereby allowing the member to purchase a single life annuity.

Members without a spouse or whose spouse has waived their right to a joint annuity can purchase a single life annuity from SPAF. The member can choose an annuity guaranteed for the lump sum used to buy the annuity, or an annuity guaranteed for fifteen years.

Men or women retiring under the same circumstances receive the same monthly annuity amount as unisex mortality tables are used in the calculation of the annuity.

Annuity rates are declared weekly. They are based on the long term bond yield as measured by the ScotiaMcLeod Debt Market Index.

INVESTMENT OF FUNDS

The Public Employees Pension Plan Board (Pension Board) is responsible for holding in trust and investing the monies in the Fund. The Pension Board has retained Greystone Capital Management Inc. to be its investment manager.

Greystone Capital Management Inc. continues to manage an immunized bond portfolio.

The investment manager makes the day-to-day decision of whether to buy or sell specific investments in order to achieve the long term investment performance objectives set by the Board. It is these long term investment performance objectives that the Pension Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Annuity Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve the above objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -.5 to +.5 years of the duration target;
- the portfolio includes sufficient short term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Pension Board has retained Royal Trust as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (ie. dividends, interest) is collected and provides financial statements for all investment transactions.

The Pension Board engages the services of an asset consultant to provide advice on the overall management of the Plan's investments and on the measurement of the Plan's performance. James P. Marshall, Inc. provides this service to the Pension Board.

ANNUITIES

The Saskatchewan Pension Annuity Fund paid a total of $8,616,578 in annuities to 1,676 members, or spouses of members, from the Public Employees Pension Plan and Members of the Legislative Assembly Superannuation Plan during the 2001/2002 fiscal year.

ADMINISTRATION OF THE FUND

The Public Employees Benefits Agency, Saskatchewan Finance provides the day-to-day administration of the pension fund.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency Revolving Fund and are charged to the Saskatchewan Pension Annuity Fund.

The Public Employees Benefits Agency is responsible for receiving the members' equity balance used to purchase their annuity, accounting for all investment transactions and for the calculation and issuance of monthly annuity payments out of SPAF. The Agency is responsible for ensuring that all transactions are in accordance with *The Saskatchewan Pension Annuity Fund Act* and its regulations.

In accordance with section 3 of *The Saskatchewan Pension Annuity Fund Act*, the fund is administered by a seven member Pension Board representing employees and employers.

The Pension Board extends its appreciation to the staff of the Public Employees Benefits Agency and to those persons within government departments, agencies and crown corporations whose co-operation and assistance during the year contributed to the continued successful operation of the fund.

Chairman
Brian Smith
Public Employees Benefits Agency

Representing Employers
Jim Graham
Saskatchewan Finance

Denise Macza
Saskatchewan Finance

Byron Pointer
SaskTel

Representing Employees
Robert Bender
Communications Energy and Paperworks Union (CEP)

Kirby Sanden
International Brotherhood of Electrical Workers (IBEW)

Dan MacKay
Saskatchewan Government Employees' Union (SGEU)

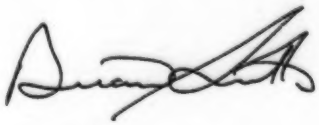
MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

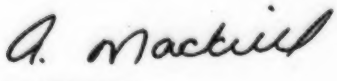
The Public Employees Pension Plan Pension Board consists of seven appointments made by the Lieutenant Governor in Council. The Pension Board is comprised of a Chairman nominated by the Minister, three members representing the employees and three members representing the employers. The Pension Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Pension Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Plan.

The financial statements have been examined by the Provincial Auditor whose report follows.



Brian Smith
Executive Director
Public Employees Benefits Agency



Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Regina, Saskatchewan
May 15, 2002

SASKATCHEWAN PENSION ANNUITY FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2002

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2002 and the statements of operations and net assets (deficit) and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 15, 2002

Fred Wendel, CMA, CA
Provincial Auditor

SASKATCHEWAN PENSION ANNUITY FUND **STATEMENT 1**
STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31

	2002	2001
ASSETS		
Investments (Note 3)		
Short-term	$ 1,134,830	$ 936,232
Bonds and debentures	100,679,539	86,277,028
	101,814,369	87,213,260
Receivables (Note 6)		
Accrued investment income	1,667,021	1,465,490
Members' contributions	426,805	5,180
	2,093,826	1,470,670
Due from General Revenue Fund (Note 4)	377,437	875,536
Cash (Note 6)	1,503	5,077
Total Assets	$104,287,135	$89,564,543
LIABILITIES AND NET ASSETS (DEFICIT)		
Liabilities:		
Administration expenses payable (Note 6)	19,400	32,142
Accumulated provision for annuities payable (Note 5)	105,292,000	89,595,000
Total Liabilities	105,311,400	89,627,142
Net Assets (Deficit) (Statement 2)	(1,024,265)	(62,599)
TOTAL LIABILITIES AND NET ASSETS	$104,287,135	$89,564,543

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND **STATEMENT 2**
STATEMENT OF OPERATIONS AND NET ASSETS (DEFICIT)

YEAR ENDED MARCH 31

	2002	2001
REVENUES		
Transfers from designated plans	$17,117,198	$17,248,152
Investment income	6,424,817	6,177,891
Total Revenue	23,542,015	23,426,043
EXPENSES		
Change in accumulated provision for annuities payable (Note 5)	15,697,000	15,920,000
Annuities	8,616,578	7,488,780
Administration (Note 7)	190,103	168,975
Total Expenses	24,503,681	23,577,755
Net loss for the year	(961,666)	(151,712)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(62,599)	89,113
NET ASSETS (DEFICIT), END OF YEAR – to Statement 1	$(1,024,265)	$ (62,599)

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND **STATEMENT 3**
STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31

	2002	2001
Cash flows from operating activities:		
Transfers from designated plans	$ 16,695,573	$17,249,242
Investment Income received	5,111,961	4,484,652
Annuities paid	(8,616,578)	(7,488,780)
Administration expenses paid	(202,845)	(158,163)
Cash flows from operating activities	12,988,111	14,086,951
Cash flows from investing activities:		
Purchase of investments	(105,985,234)	(69,029,474)
Proceeds from sale of investments	92,495,450	55,662,832
	(13,489,784)	(13,366,642)
Net (decrease) increase in cash and cash equivalents	(501,673)	720,309
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	880,613	160,304
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 378,940	$ 880,613
Cash and Cash Equivalents are comprised of:		
Due from General Revenue Fund	$ 377,437	$ 875,536
Cash	1,503	5,077
Cash and Cash Equivalents	$ 378,940	$ 880,613

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2002

1. Description of Plan

The Public Employees Pension Board (Pension Board) administers the Saskatchewan Pension Annuity Fund (Fund). The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). The Fund operates pursuant to Section 5 of *The Saskatchewan Pension Annuity Fund Act* (Act). Further information about the Fund can be found in the Act.

The purpose of the Fund is to provide annuities to members of designated pension plans. Designated pension plans include Public Employees Pension Plan and Members of the Legislative Assembly Superannuation Plan. Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and interest from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

a) **Investments**

Investments are recorded at cost. Premiums and discounts on the acquisition of bonds and debentures are amortized to earnings over the term of the security. Gains or losses realized upon the sale of investments are recognized in the period of disposition.

b) **Accumulated Provision for Annuities Payable**

The accumulated provision for annuities payable represents the present value of the annuities underwritten by the Pension Board and is determined pursuant to an annual actuarial valuation.

Any resulting change in the liability pursuant to the valuation is recognized as revenue or expense in the statement of operations and net assets (deficit).

c) **Cash and Cash Equivalents**

Cash consists of cash balances with the investment custodian and the amount due from the General Revenue Fund.

3. Investments

The investment objective is to structure the investment portfolio to limit the effect on the Fund due to changes in the level of interest rates, to provide sufficient liquidity for payments to annuitants when due, and to ensure long-term solvency.

The Fund holds investments in long-term bonds with terms matching the remaining life expectancies of annuitants.

The projected cash inflows over the life of the Fund are expected to meet the cash outflows.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities.

The value of the Fund's assets is affected by short-term changes in nominal interest rates.

b) Credit Risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligations to the Fund. The Fund limits the credit risk by dealing with issuers that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service and/or the Standard and Poor's and/or Moody's Investors Services.

Short-term Investments

Short-term investments are comprised of T-Bills and notes with affective rates of 2.30% to 2.60% (2001 - 5.00% to 5.80%) and an average remaining term to maturity of 27 days (2001 - 15 days). The Fund's investment policy states that investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service. One Canadian Bank issue represents 79.17% of the market value (2001 – 21.27%) of the short-term investment portfolio, the remaining are issues by the Government of Canada.

Bonds and Debentures

The Fund's investment policy states that government bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds. At March 31, 2001 and 2002, the Fund held none of its portfolio in BBB bonds.

No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2002 the Fund held 5.37% (2001 – 7.90%) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

(in thousands of dollars)

	2002						2001		
	Market Value								
Years to Maturity	Federal	Provincial	Corporate	Total	Yield to Maturity at Market	Coupon Rate	Total Market Value	Yield to Maturity at Market	Coupon Rate
Under 1	-	-	-	-	-	-	2,059	8.05	0.00-11.00
1 - 5	7,641	7,437	765	15,843	5.7	0.00-9.63	10,244	6.22	0.00-11.00
5 – 10	13,173	4,816	971	18,960	3.8	0.00-10.00	16,849	3.76	0.00-10.25
Over 10	20,220	44,875	3,836	68,931	5.8	0.00-11.25	62,482	5.57	0.00-11.25
Market Value	41,034	57,128	5,572	103,734			91,634		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The Fund's investments are comprised of:

	(in thousands of dollars)			
	2002		2001	
Bonds and Debentures	Cost	Market Value	Cost	Market Value
Province of Saskatchewan	$ 4,118	$ 3,839	$ 3,368	$ 3,112
Other Provincial	73,469	53,289	59,519	44,456
Corporate	4,989	5,573	6,554	7,236
Canada	44,180	41,033	40,879	36,830
Total bonds and debentures at par value	126,756	103,734	110,320	91,634
Less unamortized discounts	(26,076)	-	(24,043)	-
Total bonds and debentures amortized cost	100,680	103,734	86,277	91,634
Short-term investments	1,134	1,135	936	936
Total investments	$101,814	$104,869	$87,213	$92,570

Investments are recorded at cost because investments are matched with liabilities to minimize interest rate and reinvestment risk. Fair value approximates the market value of investments.

4. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty day borrowing rate and the Fund's bank account balance. The Government's average thirty day borrowing rate for 2001/2002 is 3.41% (2001 - 5.59%).

5. Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable is the actuarial present value of the expected annuity benefit obligations to annuitants. An actuarial valuation of the Fund was performed as at March 31, 2001 and 2002 by Aon Consulting Inc. The actuarial valuation was based on a number of assumptions about future events such as interest rates and mortality. The interest rate assumptions were based on the annuity conversion rate for 15 years from date of issue, reducing to 6% thereafter. The average conversion rate of annuities presently being paid is 7.35% (2001 – 8.06%). For mortality, 80% of the 1983 Group Annuity Mortality Table mortality rates are used.

The annual change in the annuities payable is reflected in the statement of operations and net assets (deficit). The principal components of change during the year were as follows:

(in thousands of dollars)

	2002	2001
Accumulated provision for annuities payable, beginning of year	$ 89,595	$73,675
Interest on annuities payable	6,233	5,422
New annuities purchased in the year	17,606	17,716
Annuities paid	(8,113)	(6,876)
Experience (gain)	(29)	(342)
Accumulated provision for annuities payable, end of year	$105,292	$89,595

The annuities payable is based on assumptions about future events including interest and mortality rates. The actual rates may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuities payable. A 1% increase in the interest rate decreases the liability $8.7 million and a 1% decrease in the interest rate increases the liability $10.2 million.

6. Fair Value of Financial Assets and Financial Liabilities

The accumulated provision for annuities payable is long-term in nature. Therefore, determination of the fair value of the pension liability is not practical (see Note 5).

The following method and assumptions were used to estimate the fair value of each class of financial assets and financial liabilities:

Fair values of investments are considered to be market values (note 3).

For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial assets and financial liabilities:

a) Accrued investment income
b) Members' contributions receivable
c) Due from General Revenue Fund
d) Cash
e) Administration expenses payable

7. Administration Expenses

(in thousands of dollars)

	2002		2001	
	Budget	Actual	Budget	Actual
Administration costs – PEBA	$101	$105	$ 97	$ 94
Custodial fees - Royal Trust	10	8	10	9
Investment management fees - Greystone Capital Management Inc.	75	77	66	66
	$186	$190	$173	$169

8. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the

PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operation and are recorded at exchange amounts agreed to by the parties to the transactions.

At March 31, 2002, the Fund held $3,628,989 (2001 - $2,802,075) Province of Saskatchewan bonds and debentures. For the year ended March 31, 2002, the investment income of $198,658 (2001 - $155,821) was earned on the Province of Saskatchewan bonds and debentures.

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.